

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 /078 W

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FM AMEMBASSY RANGOON

TO SECSTATE WASHDC 3415

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E.O. 11652: N/A

TAGS: EFIN, BM

SUBJ: DEVALUATION OF BURMESE KYAT

REF: 76 RANGOON 4076

SUMMARY

EFFECTIVE MAY 2 THE GUB DEVALUED THE KYAT BY ABOUT NINE PERCENT. THE DEVALUATION HAS NOT YET BEEN PUBLICLY ANNOUNCED, BUT LOCAL BANKS ARE TRANSACTING BUSINESS AT THE NEW RATES. A DEVALUATION OF THIS LIMITED MAGNITUDE IS UNLIKELY TO HAVE ANY NOTICEABLE IMPACT ON THE BURMESE ECONOMY. END SUMMARY.

1. THE GUB DEVALUED THE KYAT BY ABOUT NINE PERCENT. THE KYAT REMAINS PEGGED TO THE SDR, AND THE NEW CENTRAL RATE IS QUOTED AT SDR 1 EQUALS K8.50847. THE PREVIOUS CENTRAL RATE WAS SDR 1 EQUALS K 7.74289. DAILY RATE FOR US DOLLAR MAY 2 QUOTED AT \$1 EQUALS K7.2842, AND CERTIFIED AVERAGE RATE FOR AY IS \$1 EQUALS D7.3358.

2. NO PUBLIC ANNOUNCEMENT HAS YET BEEN MADE BUT THE MYANMA FOREIGN TRADE BANK IS TRANSACTING BUSINESS AT THE LIMITED OFFICIAL USE

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NEW RATE. THIS LACK OF PUBLIC ACKNOWLEDGMENT OF A DEVALUATION FOLLOWS THE PATTERN SET THE LAST TIME THE KYAT WAS DEVALUED IN JANUARY 1975. AT THAT TIME, AFTER SEVERAL WEEKS OF TRANSACTING BUSINESS AT THE NEW RATE, THE GUB QUIETLY ANNOUNCED A "REVISION" OF THE KYAT'S VALUE. WE EXPECT A SIMILAR PROCEDURE THIS TIME. THE ATTEMPT TO KEEP THE DEVALUATION SOME SORT OF STATE SECRET MADE IT

DIFFICULT FOR THE EMBASSY TO OBTAIN THE NEW CENTRAL RATE FROM BANK AUTHORITIES, AND THE RATE QUOTED ABOVE MUST BE REGARDED AS UNOFFICIAL.

3. THE KYAT REMAINS UNREALISTICALLY OVERVALUED. HOWEVER, THE IMF HAS PRESSED THE GUB FOR DEVALUATION AND THIS SMALL DEPRECIATION IS PERHAPS CONSIDERED THE MOST THAT WOULD BE POLITICALLY ACCEPTABLE AT THIS TIME. THE IMF POLICY SEEMS TO BE TO PUSH FOR SMALL DEVALUATIONS OVER A PERIOD OF TIME UNTIL THE KYAT REACHES A LEVEL MORE IN LINE WITH ITS TRUE VALUE.

4. THIS TOKEN DEVALUATION WILL DO LITTLE TO STIMULATE THE ECONOMY OR CORRECT BURMA'S CHRONIC TRADE IMBALANCE. THE GUB ALREADY HOLDS IMPORTS TO THE BARE MINIMUM THROUGH STRICT CONTROLS, AND HIGHER PRICES FOR IMPORTED GOODS AS THE RESULT OF DEVALUATION COULD NOT FURTHER DISCOURAGE OFFICIAL IMPORTS. IN FACT, IF BURMA IS TO BEGIN TO ATTAIN SOME OF ITS DEVELOPMENT GOALS, THE COUNTRY MUST OPT FOR A PROGRAM OF IMPORT EXPANSION. A DEVALUATION, ESPECIALLY ONE THAT DOES NOT PLACE A REALISTIC VALUE ON THE KYAT, WILL NOT NECESSARILY ENHANCE THE NATION'S EXPORT SECTOR. BURMA'S LOW EXPORT LEVELS OF PRIMARY PRODUCTS ARE MAINLY THE RESULT OF PRODUCTION BOTTLENECKS, AND DEVALUATION WITHOUT OTHER BASIC ECONOMIC AND MANAGEMENT REFORMS WILL DO LITTLE TO ALLEVIATE THIS PROBLEM. THERE ARE FEW, IF ANY, NONTRADITIONAL EXPORT PRODUCTS THAT WOULD BENEFIT FROM A DEVALUATION OF THIS LIMITED MAGNITUDE.

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5. HOWEVER, THIS LIMITED DEVALUATION MAY HAVE SOME BENEFICIAL EFFECT BY GIVING GUB POLICY MAKERS A BETTER FEEL FOR ALTERNATIVE ALLOCATION OF RESOURCES. GUB CORPORATIONS WHICH DEAL MAINLY IN EXPORTS WILL BE ABLE TO SHOW BETTER EARNINGS IN TERMS OF KYAT. THIS COULD INFLUENCE GUB INVESTMENT DECISIONS, AND PROVIDE SOME PRICE INCENTIVE FOR PRODUCTION OF EXPORTABLES.
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Message Attributes

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Current Classification: UNCLASSIFIED
Concepts: DEVALUATIONS, KYAT
Control Number: n/a
Copy: SINGLE
Sent Date: 03-May-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
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